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RUEHQT/AMEMBASSY QUITO
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UNCLAS BOGOTA 003350

SENSITIVE
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E.O. 12958: N/A
TAGS: [ENRG](#) [ECON](#) [CO](#)
SUBJECT: COLOMBIA: EL NINO TAKING A TOLL ON ENERGY SECTOR

11. (SBU) Summary. Colombia's energy sector is suffering the drying effects of the climatic phenomenon, El Nino. The recent lack of rain has severely lowered dam reserve levels, decreased hydroelectric power usage, and prompted President Uribe to urge Colombians to lower their water and energy usage. As a result of El Nino, the GOC temporarily halted the supply of compressed natural gas for vehicles, reprioritized natural gas distribution, and reduced electricity exports to Venezuela and Ecuador as well as natural gas exports to Venezuela. El Nino will be hardest felt in early 2010, as meteorologists predict a prolonged dry season. If dam reserve levels continue to decline, power rationing is likely. In response to the crisis, the GOC has resorted to non-transparent actions in the distribution and market regulation of natural gas, resulting in contract violations. These recent events foreshadow trouble in early 2010 in the energy sector, and may be complicated further by Presidential elections in May. End Summary.

El Nino

12. (U) The El Nino phenomenon is not new to Colombians. In the early 1990's Colombia suffered a strong El Nino, which lowered dam reserve levels to 20 percent and caused rolling blackouts throughout the country. This had a crushing effect on the economy and resulted in new bids for thermal plants and calls for more natural gas pipelines to protect against another strong El Nino. Unfortunately, pricing mechanisms favored additional hydroelectric power over thermal and thus mitigated the need for additional gas pipelines.

13. (U) The 2009-2010 El Nino began to take effect last August and delayed the rainy season from mid-September to mid-October, (October is the largest rainfall month, followed by November and April). According to the Institute for Hydrology, Meteorology, and Environment (Colombia's NOAA-equivalent), rainfall for this period declined substantially, with September rainfall down by 70 percent. In the south, rivers and dams have reached their lowest levels in the last ten years, resulting in national dam reserve levels to fall to 66 percent. On average, dam reserve levels for October are close to 80 percent.

Electricity Power Generation

¶4. (U) Colombia's installed capacity for electric power generation is roughly 13,500MW - 68 percent derived from hydro and 32 percent from thermal, according to the Ministry of Mines and Energy. Last year, 80 percent of Colombia's electricity came from hydroelectric plants (hydros) due to above average rains and the low cost to dispatch hydroelectric generated electricity. As of October 19, only 48 percent of electricity is generated by hydros, with 47 percent coming from the more expensive thermal, coal, and diesel power generation plants, and 5 percent from other sources.

¶5. (SBU) In last year's power-generation bids, more than 80 percent of the 3,000 MW of additional capacity awarded went to hydroelectric projects, which are scheduled for completion by 2018. Bids for 500MW of coal powered plants have been awarded, but the price per kilowatt is too low to attract any financing, which will delay construction indefinitely, according to local energy experts.
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¶6. (U) Because of El Nino, water prices have increased to conserve water usage. The net effect has been a reduction in dispatched hydroelectric power. The GOC's goal is to conserve water reserves for the expectedly long dry season that may last through April 2010; (on average, Colombia's dry season lasts two months, from January to February).

¶7. (SBU) Conserving water reserves has forced Colombia to turn on most of its thermal electric plants, which the majority runs on natural gas. Viewed as a simple fall-back plan, several factors have complicated this measure: first, the lack of adequate transportation of natural gas throughout Colombia; second, increased use of compressed natural gas; and third, the lack of transparency in the dispatch of natural gas.

Natural Gas Concerns Complicate Predicament

¶8. (SBU) Antonio Celia Martinez, President of Promigas -- Colombia's largest private gas transmission and distribution company -- told Econoff that Colombia has more than 20 years of natural gas reserves (roughly 6 trillion cubic feet). A majority of the natural gas reserves are located on the north coast of Colombia in La Guajira. However, there is only one natural gas pipeline that distributes gas from the coast to the interior of the country. According to Centragas, which manages part of the pipeline from the coast, Colombia lacks sufficient infrastructure to transport increased levels of natural gas. Centragas' general manager, Lewis May, informed Econoff that Centragas' natural gas pipeline is running at full capacity. He added that Colombia doesn't necessarily need a new pipeline, but rather more gas compressors and pipeline loops to increase the flow of gas to the interior. Investment in natural gas infrastructure is critical since demand has increased year after year.

¶9. (SBU) The increase in gasoline prices over the years has created a growing market for users of compressed natural gas (CNG). The number of CNG users increased substantially from 6,760 vehicles in 2000 to more than 240,000 in 2008, most of which are taxis. CNG

stations popped up throughout the country, but the natural gas infrastructure remained stagnant. Consequently, the combination of inadequate infrastructure and a redistribution of natural gas to thermal plants in response to El Nino left the CNG stations high and dry, with newspaper front pages showing lines of taxis "parked" in front of empty CNG stations. This shortage lasted for two weeks, prompting speculation that the GOC revised distribution priorities to accommodate CNG users.

Government Actions

¶10. (SBU) With elections coming up in May, President Uribe needed to "fix" the crisis immediately. His Minister of Mines and Energy, Hernan Martinez, announced on September 30 that Colombia planned to reduce the amount of electric power sold to Ecuador and Venezuela, 340MW and 120MW respectively, as well as reduce natural gas exports to Venezuela. Since that announcement, electricity exports to Venezuela and Ecuador have dropped by 30 and 50 percent

respectively, and natural gas exports to Venezuela have dropped by 68 percent, (250 to 80 million cubic feet/day). Additionally, President Uribe gave a public speech in early October, urging Colombians to conserve water, electricity and natural gas usage.

¶11. (SBU) The GOC is very concerned about dam reserve levels reaching 58 percent - a critical point. Power rationing could be implemented, especially since El Nino is projected to last through April 2010. Although the GOC understands the gravity of the situation, it has taken several non-transparent actions. Instead of allowing the regulatory body, CREG, to manage the situation, Minister Martinez drew up several decrees to regulate the electricity market and redistribute natural gas supplies. In one decree, the Minister ruled that if thermal plants were dual-fueled (natural gas and diesel), they would be required to run on diesel because the demand for natural gas exceeded gas output. The decree made no mention of honoring natural gas contracts, which resulted in several violations.

¶12. (SBU) A U.S. company managing a thermal plant noted to Emboffs dual-fueled plants without contracts were receiving natural gas. Also, thermal plants that were not even being dispatched to generate electricity were receiving natural gas supplies and selling them on the secondary market for huge profits (one such plant was coincidentally a state-owned plant). That U.S. company -- which had a contract but was not receiving its natural gas -- resolved its issue after visiting Minister Martinez.

Planning Ahead

¶13. (U) According to the Ministry of Mines and Energy, the GOC is investing in the expansion of two pipeline projects to increase the flow of natural gas to the interior regions. The Cusiana-Vasconia-Cali and Ballena-Barranca projects consist of public and private investments. The projects are expected to come on line by 2011 and increase natural gas supplies to the interior by more than 60 percent. Analysts predict that these projected infrastructure projects will help Colombia avoid the El Nino effect in the future.

Comment

¶14. (SBU) The effect of El Nino is a good example of how Colombia reacts in a crisis and reveals an over-reliance on hydroelectric power. The October rains have just begun, but meteorologists predict El Nino will keep Colombia dry from January 2010 through April and possibly into May, causing reservoirs to fall well below their seasonal averages. The September drought and El Nino forecasts presage a potential energy crisis ahead. Presidential elections in May 2010 could cloud GOC decision-making in the event of an energy shortage. That said, Embassy officials plan to work with CREG and the Ministry of Mines and Energy to urge greater transparency in the regulatory market as well as maintain contract sanctity.
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